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95

33

The editorial index of companies referred to in this issue is on page 162.

Companies

34 Financial Corp. of America
Aggressive Charlie Knapp is playing a dangerous game with the nation's largest savings and loan. So far he's been mighty lucky.

37 Continental Illinois
What were its directors doing? Who has been watching the store?

39 Engelhard Corp.
By selling off inventory and postponing a writeoff, Irving Isko looked like a hero—for a while.

57 Ameritech
Why is it doing better than the other Bell spinoffs?

60 Pantry Pride
Wall Street isn't buying the story this time.

66 The Up & Comers
FlightSafety International; Alamo Rent A Car; Orbit Instrument Corp.

107 Savannah Foods & Industries, Inc.
The U.S. sugar industry is going through the wringer. Bill Sprague means to be one of the survivors.

108 Crime Control, Inc.
Taking a look behind those jazzy numbers.

Industries

33 Air Travel: Trouble On The Flight Line
There's a simple solution—if the airlines and the regulators have the courage to implement it.

114 Television: A Little Decontrol . . .
. . . Like a little knowledge, may be a dangerous thing.

People

38 Timothy Aitken
It's not true that Lord Beaverbrook's British-born grandson wants to buy up all of Wall Street. But he seems to be making a pretty fair-size dent in the mutual funds business.

44 Jane Jacobs
You may not agree with her that the city—not the nation-state—is the source of all world economic growth. But you can't afford to ignore her.

International

52 Sweden
On paper, its enormous foreign debt looks as ominous as Brazil's. So why are the bankers still lining up to lend?

Government

62 The Price Of Gasoline Is Going Up
Ten years later, the EPA is still trying to get the lead out. This time it's going to cost motorists.

Departments

4 Side Lines
6 Trends
12 Follow-Through
14 Readers Say
17 Fact and Comment
20 Other Comments
23 Fact and Comment II
163 Flashbacks
164 Thoughts

Money & Investments

25 What's Ahead For Business
26 The Forbes Index
139 The Forbes/Wilshire 5000 Review

Columnists

147 Ben Weberman
148 Susan Lee
150 David Dreman
152 Ann C. Brown
154 Thomas P. Murphy
156 Stanley W. Angrist
158 Ashby Bladen
160 Srully Blotnick

44

66

103

Wall Street

53 "It's Beyond Our Wildest Dreams"
From a standing start, interest-rate swaps have become a $50 billion market.

95 Cover Story: The New Dart Board
The FORBES Dart Board Fund has outperformed practically every index around. So what do we do for an encore? Meet The Smart Dart Fund.

141 Streetwalker
UAL; Frontier Holdings; King Radio; Valero Energy; Hercules; Central Jersey Industries.

143 The Funds: Korea Fund
A clone of Scudder's Japan Fund gives Americans their first chance to invest directly in South Korean stocks.

144 Wall Street Does Its Homework
Ranking the banks by market value instead of assets.

On The Docket

64 Antitrust's New Villains
While the trustbusters sanction billion-dollar mergers, they're not twiddling their thumbs in other areas.

Numbers Game

72 Float? What Float?
Some of the country's biggest banks don't want to show hundreds of millions of dollars in assets. Also: Clean by any other name.

Taxes

93 Taxing Matters: IRS "Letter Rulings"
Their increasing popularity worries the taxmen.

103 The Consumption Tax
Should the government tax spending rather than income? The theory has surprisingly strong backing.

Marketing

102 Norman Rockwell Meets Modern Problems
Why does greeting-card advertising cling to that saccharine image? Also: The "buy and build" ploy.

Management

112 A Search For Excellence
Researchers at the Federal Reserve Bank of Atlanta go looking for the best companies in the Southeast.

Technology

118 Meet The "Contract Archaeologists"
Turning an ivory tower upside down. Also: Tuberculosis—far from conquered; artificial intelligence—anything in the small size?

Personal Affairs

126 The Poolside Investor
Using your personal computer to play the market. Also: Inside a big-company "outplacement" seminar.

Faces Behind the Figures

134 Kevin Shanley, *Fidelity Union Bank*
134 George Cahill, M.D., *Hughes Medical Institute*
135 Donald E. Reutershan, *N.Y. Insurance Exchange*
136 Lawrence P. Klamon, *Fuqua Industries*
136 Joe F. Hanauer, *Sears, Roebuck*
137 Charles Russell, *Visa International*

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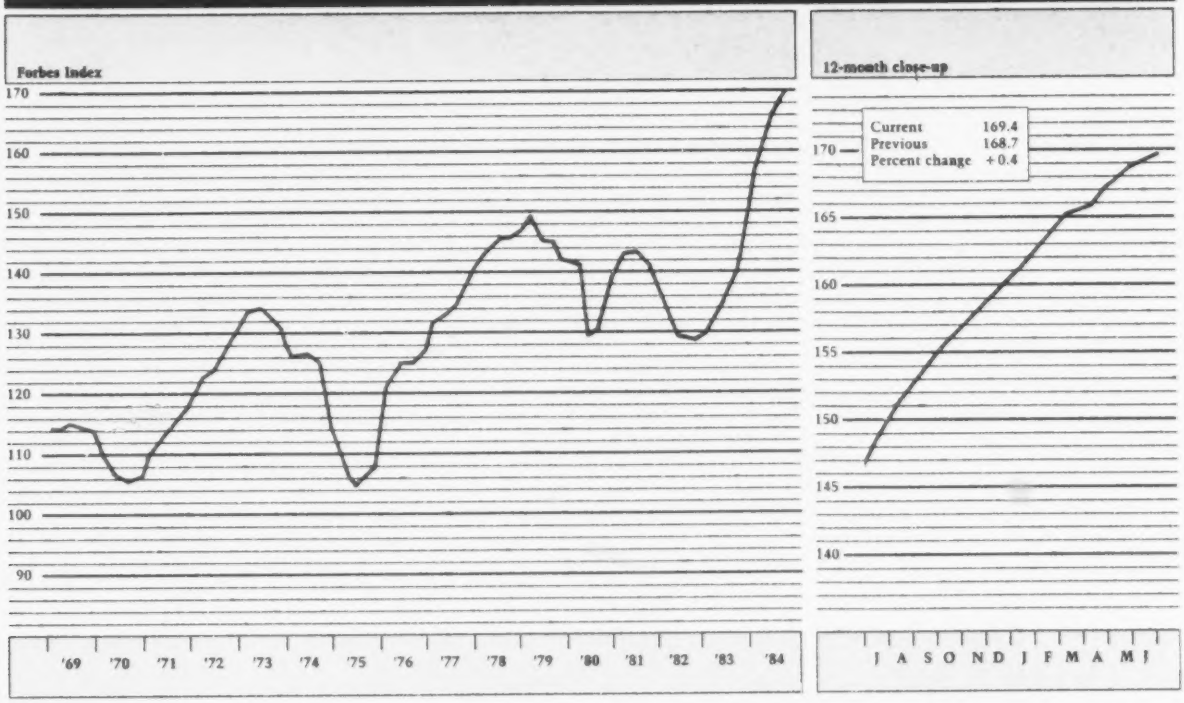
Cover illustration: Tim Lewis

The Forbes Index



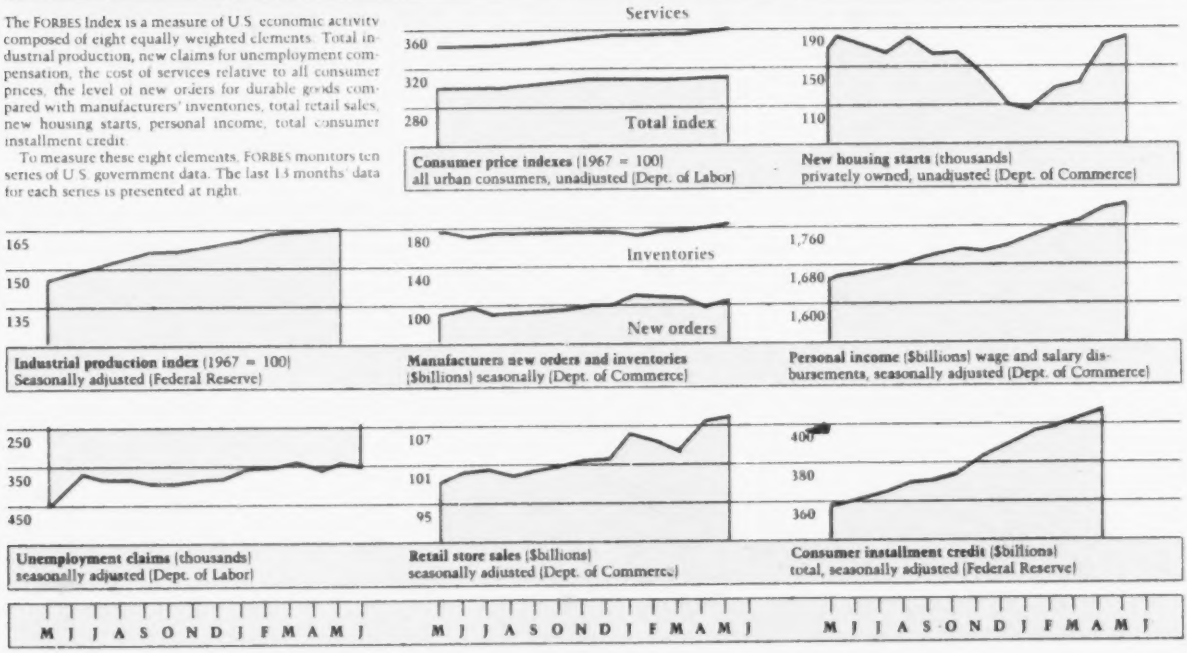
Less than meets the eye. With updates on only two figures, the Forbes Index rose a mere 0.4%. This move, however, stems largely from some statistical quirks and a revision of earlier data on manufacturers' new orders and inventories. The latest 1.3% rise in manufacturers' inventories, for example, should have pulled the Index down. But the impact of revised government figures for earlier months converts the new orders-to-inventories ratio into a minor uptick.

Even though new unemployment claims are barely half the level they reached at the peak of the recent recession, this number is rising again. Almost 357,000 claims were filed in June, a 1.7% increase over May. Optimists, of course, think this increase reflects little more than normal turnover. But the new number is not encouraging.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 13 months' data for each series is presented at right.



Back in 1967 we dart-boarded a stock portfolio. Since then it has beaten every index we can find. Oh, would we had taken it more seriously. So, here we go again.

Smart darts and other games

The FORBES Dart Board Fund

In June 1967 this portfolio may have looked motley. But over the years it has trounced the averages and put all but a handful of professional investors to shame.

Initial investment	Current value of initial $1,000 position	Change since 6/30/67
Amphenol (acquired by Allied Corp)	$3,013.89	201.4%
Arvin Industries	2,523.00	152.3
Carolina Power & Light	639.82	–36.0
Central Aguirre Sugar (liquidated 12/81)	646.44*	–35.4†
Chase Manhattan	1,212.81	21.3
Checker Motors	1,996.18	99.6
Crouse-Hinds (acquired by Cooper Inds)	3,732.10	273.2
Elec & Mus Instruments Ind (acquired by Thorn EMI Ltd)	839.46	–16.1
Electric Storage Battery (acquired by Inco)	778.33	–22.2
Firestone Tire & Rubber	960.11	–4.0
Florida Steel	4,293.08	329.3
General Dynamics	4,695.04	369.5
General Precision (acquired by Singer)	534.69	–46.5
Helene Curtis	3,670.92	267.1
International Nickel	328.46	–67.2
International Paper	2,074.28	107.4
International Pipe & Ceramics (acquired by Clevepak)	3,085.39	208.5
Ludlow (acquired by Tyco Labs)	3,927.88	292.8
MacAndrews & Forbes (liquidated 3/84)	27,422.08*	2,642.2‡
Midwest Oil (acquired by Standard Oil, Indiana)	7,312.06	631.2
GW Murphy (acquired by Baker International)	2,755.86	175.6
Pacific Tin	1,289.63	29.0
JC Penney	1,994.53	99.5
Pittston	2,330.05	133.0
Riegel Paper (acquired by Federal Paper Board)	3,789.50	279.0
Sunbeam (acquired by Allegheny International)	205.98	–79.4
Texas Oil & Gas	72,755.15	7,175.5
Textron	959.41	–4.1
Total	$131,697.61	370.3%

*As of liquidation date, when proceeds were distributed. †As of December 1981. ‡As of March 1984.

By Steve Kichen

IN THE SUMMER OF 1967 three FORBES executives threw darts at the stock market page of the *New York Times*. Those were the days when perfect market theory—sometimes called random walk—was riding high. The theory claims that you are able to do as well in the stock market by throwing darts as by analyzing balance sheets. We set out—unscientifically, of course—to test the concept. Thus was born the famous FORBES Dart Board Fund.

After several tosses, we wound up with 28 hits, and, in theory, we put $1,000 into each. From then on, management was strictly passive: If one of our portfolio companies merged, we took shares in the acquiring company. If a company sold out for cash, we reinvested in the remaining stocks. No analysis, technical or fundamental. We just sat there.

Those must have been darned smart darts. Our hypothetical $28,000 investment is now worth nearly $132,000, excluding dividends. That is a 370% gain, more than ten times the meager performance of the Dow Jones industrials. The FORBES darts also trounced the broader NYSE composite, which was up 76%. What about over-the-counter stocks? No one has tracked them as a group further back than 1971. But since then the NASDAQ composite index is up a mere 140%.

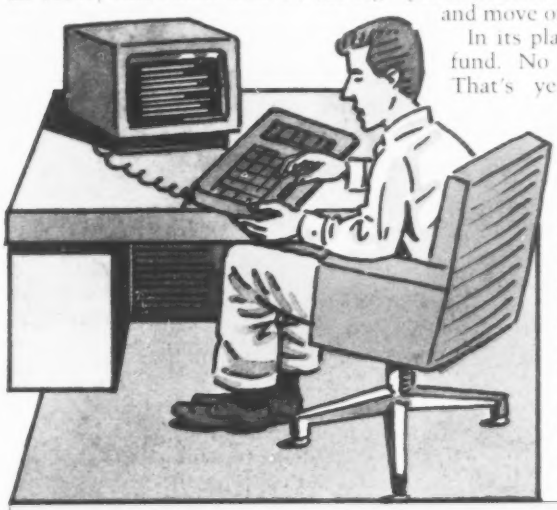
The Dart Board Fund's performance, in fact, works out to a compound annual return of 9.5%. Over the long term a few professional investors may do better than that. But darned few. And remember, our figures don't count dividend income.

What does all this prove?

Not much except that it pays to get

lucky and stay lucky. One random hit, Texas Oil & Gas, which has been remarkably successful at acquiring reserves, accounts for a huge part of the dart fund's gain. Without TO&G the portfolio would be up a more pedestrian 118%, still better than all the big indexes and roughly four times the Dow's gain.

It's time to bury The Dart Board Fund. The merger and takeover waves have eliminated too many of its stocks; only 15 of the original 28 companies remain. We'll take our profits and move on.



In its place we'll create a new fund. No more darts, though. That's yesterday's stuff. This time we are using a microcomputer to pick a random portfolio from among the nearly 3,100 issues tracked by the Institutional Brokers Estimate System (IBES). These are the stocks that Wall Street analysts follow on a regular basis. We imposed this limitation because we wanted to avoid new portfolios overweighted with shares in small, obscure companies.

For those who would like to copy our procedure and create other random portfolios, here's how we got our picks. At the moment there are 3,082 companies with IBES estimates, so we numbered the stocks in the IBES universe from 1 to 3,082. We used the random-number generating capability found in nearly all computers and wrote a program to select 25 random numbers between 1 and 3,082. To obtain the winners of our little lottery, we matched the computer-created list with the numbers we had assigned to the IBES stocks.

As one would expect, these randomly selected issues, which appear on page 99, have little in common. The list includes Dreyer's Grand Ice Cream, once featured as a FORBES Up & Comer, and Time Inc., a Forbes 500s company. There is, however, one unexpected coincidence. The list highlights both Home Centers of America and SIS Corp., small companies that have been public for barely

The Pure Play Price/Earnings Fund

Most investors don't like these stocks, which is why they have such low P/Es. Even though bottom-hunters claim to have made fortunes here, meager multiples can signal an earnings collapse.

Company/business	Recent price	Latest 12-month EPS	Latest 12-month P/E	Yield	—Estimated EPS— 1985	—Estimated EPS— % change '85 vs '83	4-year growth sales	4-year growth EPS	Price/ book value	Debt/ equity
Public Svc New Hamp/electric utility	5⅛	$ 3.57	1.4	—	$ 3.68	5.3%	16%	–4%	0.26	84%
Long Isl Lighting/electric utility	5⅜	2.95	1.8	—	2.61	–6.9	18	4	0.28	62
Consumers Power/electric utility	6⅛	3.29	1.9	22.9%	3.14	0.7	12	–1	0.24	99
United Illuminating/electric utility	13⅛	5.90	2.2	15.2	NA	NA	15	11	0.42	77
Public Svc Ind/electric utility	8⅝	3.87	2.2	11.6	1.16	–74.1	10	4	0.32	74
Contl Illinois/bank holding	5⅞	2.35	2.4	—	3.02	22.7	14	–12	0.13	69
Maine Public Svc/electric utility	15⅞	6.54	2.4	14.6	NA	NA	14	19	0.45	96
Finl Corp America/savings and loan	11⅓	4.74	2.5	5.8	6.61	28.9	408	213	0.65	53
Ford Motor/auto	35⅓	14.02	2.5	4.5	16.09	56.4	1	15	0.86	36
American Century/real estate	8	2.97	2.7	—	3.75	999.0	245	NA	0.90	27
Manufacturers Hanover/bank holding	25⅝	8.21	3.1	12.5	9.15	9.4	18	8	0.39	88
Golden West Finl/savings and loan	11⅞	3.80	3.1	1.0	4.06	8.2	38	29	1.05	568
Kansas Cty Pwr & Lt/electric utility	15	4.51	3.3	15.7	3.92	–5.5	13	27	0.64	92
First Am Finl/title insurance	25	7.20	3.5	2.4	7.75	18.7	15	6	1.00	NA
Cincinnati Gas & Elec/utility	11	3.13	3.5	19.6	2.64	–10.4	16	3	0.54	103
Gibraltar Finl/savings and loan	6⅞	1.94	3.5	—	2.00	–1.0	19	–2	0.67	586
DWG/propane gas	2⅞	0.81	3.5	—	NA	NA	17	73	0.45	138
First Western Finl/savings and loan	6½	1.72	3.6	3.2	1.80	44.3	30	2	0.71	NA
Chase Manhattan/bank holding	39⅝	10.78	3.7	9.2	13.06	19.1	12	6	0.45	39
El Paso Electric/electric utility	10½	2.64	4.0	13.3	2.57	3.6	23	18	0.78	92
Middle South Utils/electric utility	11	2.75	4.0	15.8	2.52	2.3	20	–1	0.60	179
Central Maine Power/electric utility	11⅛	2.77	4.0	17.6	2.33	–7.4	17	5	0.67	89
Commonwealth Energy/utility	19⅜	4.75	4.1	10.9	3.85	–16.9	15	21	0.82	85
Toledo Edison/electric utility	15⅛	3.70	4.1	16.7	3.52	0.6	10	8	0.63	98
Chemical New York/bank holding	25¾	6.28	4.1	9.2	6.82	18.2	20	19	0.61	31

more than one year. But isn't this what random is all about?

So, on page 99, you will find our first Smart Dart Fund, successor to the fabled Dart Board Fund. Will the new one do as well? We doubt it. But you never can tell.

For those readers who aren't Random Walkers, however, we cranked out four rival funds, each based on a simple version of an accepted stock-picking principle.

First, The Pure Play Price/Earnings Fund on page 96. It contains the 25 stocks with the lowest price/earnings

The Pure Play Book Value Fund

These stocks will take off only if Wall Street rewards hidden values. Most issues here have negative earnings growth, and 17 are losing money.

Company/business	Recent price	Latest 12-month EPS	Latest 12-month P/E	Yield	—Estimated EPS— 1985	—Estimated EPS— % change '85 vs '83	4-year growth sales	4-year growth EPS	Price/ book value	Debt/ equity
Charter Co/integrated oil	2⅛	$–0.21	NM	—	NA	NA	10%	–22%	0.08	64%
Contl Illinois/bank holding	5⅜	2.35	2.4	—	$3.02	22.7%	14	–12	0.14	69
Inspiration Res/metals and mining	8⅜	–3.32	NM	—	NA	NA	5	–68	0.19	68
Keystone Consl Inds/steel	4¼	–10.31	NM	—	NA	NA	–5	–380	0.20	54
Offshore Logistics/oilfield svcs	5¼	–11.41	NM	—	0.40	–73.3	18	12	0.23	57
Consumers Power/electric utility	6⅛	3.29	1.9	22.9%	3.14	0.7	12	–1	0.24	99
Wheeling-Pitt Stl/steel	21⅜	–11.08	NM	—	NA	NA	–8	–57	0.24	133
Manville/building materials	8¼	1.44	5.7	—	NA	NA	–2	–12	0.24	0
Long Isl Lighting/electric utility	5⅜	2.95	1.8	—	2.61	–6.9	18	4	0.28	62
Crocker National/bank holding	16⅞	–7.34	NM	7.1	2.99	NA	17	–27	0.29	17
Transcontl Energy/oilfield svcs, energy	¾	–4.10	NM	—	NA	NA	–11	–127	0.30	365
Crompton/textiles	9⅛	–8.78	NM	—	NA	NA	–11	–45	0.31	97
Public Svc Ind/electric utility	8⅜	3.87	2.2	11.6	1.16	–74.1	10	4	0.32	74
General Pub Utils/electric utility	8½	1.49	5.7	—	1.92	74.7	17	–8	0.35	96
Allied Supermarkets/supermarkets	2⅜	–0.22	NM	—	0.20	–23.1	–1	NA	0.35	4
Peoples Restaurants/restaurants	1¼	–0.12	NM	—	NA	NA	2,444	4	0.36	30
Biotech Capital/venture capital	2¼	–0.06	NM	—	NA	NA	NA	NA	0.36	9
Republic Steel/steel	22½	–10.85	NM	2.2	6.30	NA	–8	–91	0.37	70
Digicon/oilfield svcs	4¼	–6.06	NM	—	0.67	NA	74	–160	0.37	246
Evans Products/building materials	5⅜	–5.80	NM	—	2.75	NA	1	–55	0.39	199
Manufacturs Hanover/bank holding	25⅜	8.21	3.1	12.5	9.15	9.4	18	8	0.39	88
Petro-Lewis/oil, gas exp, prod, dev	4¼	–0.25	NM	—	–0.05	NA	146	63	0.40	323
Twin City Barge/maritime	1¼	–6.74	NM	—	NA	NA	29	–172	0.41	472
Marine Midland Banks/bank holding	20⅛	4.71	4.3	8.0	5.87	21.0	19	13	0.41	52
Barber-Greene/construct machinery	5	–14.31	NM	—	–2.00	NA	–9	–141	0.41	19

The Pure Play Growth Fund

With fat earnings gains, these stocks are already popular. But the market can also be ruthless if today's favorites fail to meet lofty expectations.

Company/business	Recent price	Latest 12-month EPS	Latest 12-month P/E	Yield	—Estimated EPS— 1985	—Estimated EPS— % change '85 vs '83	4-year growth sales	4-year growth EPS	Price/ book value	Debt/ equity
Academy Insur Grp/insurance	8¾	$1.11	7.9	2.3%	$1.70	57.4%	64%	2,000%	1.63	35%
Yankee Oil & Gas/integrated gas	9⅛	1.41	6.5	—	1.58	NA	NM	1,400	3.43	97
Helen of Troy/cosmetics	7	0.66	10.6	—	NA	NA	68	758	1.70	54
Jeffrey Martin/cosmetics	6½	0.83	7.8	—	0.80	–1.2	264	481	3.59	0
CPI Corp/industrial svcs	18⅞	1.45	13.0	—	NA	NA	43	429	6.09	3
Sparkman Energy/gas transmission	12½	1.22	10.2	—	2.80	109.0	140	394	2.95	74
First Executive/insurance	10⅞	1.09	10.0	—	1.67	67.4	248	392	1.12	NA
Amfesco Inds/footwear	12¼	2.15	5.9	—	2.50	4.6	54	348	1.75	3
Phoenix American/financial svcs	6¼	0.95	6.6	—	1.30	NA	280	345	2.75	NA
Commodore Intl/computer equip	28⅞	4.46	6.5	—	6.01	110.1	215	314	4.63	48

The Pure Play Growth Fund

Company/business	Recent price	Latest 12-month EPS	Latest 12-month P/E	Yield	—Estimated EPS— 1985	—Estimated EPS— % change '85 vs '83	4-year growth sales	4-year growth EPS	Price/ book value	Debt/ equity
BR Communications/electronics	16¾	$0.96	17.4	—	$1.61	59.7%	92%	250%	2.96	NA
Quick & Reilly Grp/securities brokerage	16½	1.38	12.0	1.2%	1.40	1.5	145	232	7.86	6%
Key Pharmaceuticals/ethical drugs	12½	0.55	22.7	1.3	1.08	112.0	210	230	7.49	70
Avant-Garde Comptng/software	19⅛	0.32	59.8	—	0.90	800.0	289	200	NM	76
Dysan/computer equipment	10	0.57	17.5	—	0.75	66.1	108	198	0.94	6
General Homes/building	6½	0.79	8.2	—	1.40	–7.9	68	184	1.55	334
Berg Enterprises/real estate	9	1.58	5.7	—	1.60	17.5	47	159	2.34	2
Gulfstream Aerospace/aerospace	15⅞	1.84	8.6	—	2.03	25.0	83	153	2.79	24
Southern Hospitality/restaurants	3⅞	0.31	12.5	—	0.50	85.2	51	144	1.70	340
GTS/oilfield svcs	7⅞	0.85	9.3	—	1.75	150.0	37	134	3.94	19
Liz Claiborne/apparel	38½	2.61	14.8	1.3	4.09	92.2	95	119	9.80	0
Dreyfus/financial svcs	26¼	3.22	8.3	3.7	NA	NA	69	116	3.00	81
Provincetown-Boston Air/airline	9	0.48	18.8	—	1.20	114.3	111	110	4.31	153
Limited/retail	19	1.24	15.3	1.3	2.10	77.7	57	106	5.85	11
Comair/airline	10¾	1.12	9.6	—	NA	NA	326	105	4.01	39

The Pure Play Analysts' Choice Fund

Based on 1985 earnings estimates, these 25 issues show the largest percentage increases from 1983 results. Future multiples are quite low, however, which means investors are leery about many of these cyclical firms.

Company/business	Recent price	Latest 12-month EPS	Latest 12-month P/E	Yield	—Estimated EPS— 1985	—Estimated EPS— % change '85 vs '83	4-year growth sales	4-year growth EPS	Price/ book value	Debt/ equity
BF Goodrich/tire and rubber	28½	$1.65	17.3	5.5%	$ 6.00	782.4%	2%	–22%	0.65	49%
Alcan Aluminium Ltd/aluminum	27½	1.53	18.0	4.4	6.44	695.4	5	–22	0.95	54
Singer/precision inst	28⅝	1.14	25.1	0.3	4.35	579.7	0	NA	1.85	1
Marshall Inds/electronics	23¾	2.49	9.5	—	3.58	563.6	24	23	4.85	164
Clark Equip/industrial equip	28	0.97	28.9	3.9	4.79	456.5	–13	–22	0.87	27
Foxboro/electrical equip	29½	0.68	43.4	3.5	3.34	414.3	3	–19	1.18	6
Chrysler/auto	25¼	4.40	5.7	0.6	11.03	369.3	4	NA	2.69	81
Arrow Electronics/electronics	21⅝	1.41	15.3	0.9	3.79	346.3	27	–8	2.18	186
Mead/paper & forest prods	31	1.83	16.9	3.2	5.59	330.0	6	–18	1.08	69
Black & Decker/tools	22⅛	1.05	21.3	2.9	2.75	323.1	3	–13	1.90	29
Data General/computer equipment	48½	1.46	33.2	—	3.81	297.2	28	–11	2.34	33
Signal Cos/industrial machinery	26⅝	2.33	11.4	3.5	3.45	283.0	28	–18	1.16	11
Joy Mfg/construct machinery	23¼	0.92	25.3	6.0	2.64	282.6	–2	–24	0.90	13
United Energy Res/natural gas	24	0.57	42.1	10.3	3.98	282.4	7	–19	0.74	53
St Regis/paper & forest prods	37	1.77	20.9	3.0	5.23	270.7	3	–16	0.94	48
Federal Paper Board/paper products	36½	2.75	13.3	3.3	6.82	265.4	9	–9	1.37	140
Georgia-Pacific/paper & forest prods	18⅝	1.17	15.9	3.2	3.53	264.1	6	–17	0.96	65
Chesapeake/paper products	32	1.57	20.4	3.6	4.81	261.7	5	–9	1.17	28
Paccar/auto	41¼	2.93	14.1	2.9	7.45	259.9	–6	–17	1.24	2
Koppers/diversified chemical	19⅜	1.08	17.9	4.1	2.86	252.7	–4	–20	1.00	37
Aluminum Co of Am/aluminum	37⅞	3.24	10.1	3.7	7.14	251.9	3	–17	0.85	51
Esterline/precision inst	27⅜	1.43	19.3	2.3	3.13	244.3	–1	–11	2.77	35
Lotus Development/software	18¼	1.41	13.3	—	3.37	243.5	NA	NA	5.00	0
Allen Group/auto parts	19½	1.78	11.0	2.6	3.43	233.3	1	–13	1.47	43
Moore McCormack Res/iron ore	21½	1.49	14.4	4.8	4.43	232.7	10	–18	0.55	103

multiples in the IBES universe. The P/Es of this group range from 1.4 to only 4.1. The list has several depressed electric utilities and banks, along with cyclical giants such as Ford. A choice list? Hardly, but that's what the computer gave us.

Second, The Pure Play Book Value Fund, on page 97, includes the 25 stocks selling at the deepest discount from book value. The late, great Ben Graham was attracted to such bargains. Sure, he also liked strong balance sheets and income statements. But we kept things simple. That's why you will find potentially promising situations like Biotech Capital mixed in with leveraged moneylosers such as Charter Co. and Wheeling-Pittsburgh Steel. Utilities and banks, not well regarded at the moment, show up here, too.

Third, The Pure Play Growth Fund, shown on page 97. For this portfolio we drew on our definition of Up & Comers, FORBES' annual compilation of the nation's choicest young companies. The computer scanned the IBES universe to pick the 25 stocks that rank highest based on a composite of performance measures. These are the cream of growth stocks. Each has a four-year earnings growth rate of 100% or better, a four-year sales growth rate of 30% or better and a latest 12-months' return on equity of at least 25%.

Finally, Wall Street gets its chance to shine in The Pure Play Analysts' Choice Fund, which appears on page 98. These are the stocks that the professionals expected to post the largest earnings gains by comparing actual 1983 results with consensus profit estimates for 1985. The earnings projections come from the thousands of analysts who contribute to IBES. What do they like? Paper and forest products companies are well represented. So are capital goods producers. But newcomer Lotus Development also makes the grade.

We will report on the performance of these funds regularly and modify them from time to time as necessary. Are we out to prove anything? Not really. Just to have a bit of fun with some of Wall Street's more pompous theories and pretenses. ■

The Smart Dart Fund

A microcomputer picked this portfolio at random. In theory, it should match the market averages. But if our original Dart Board Fund is any guide, performance will be considerably better.

Company/business	Recent price	Latest 12-month EPS	Latest 12-month P/E	Yield	—Estimated EPS— 1985	—Estimated EPS— % change '85 vs '83	4-year growth sales	4-year growth EPS	Price/ book value	Debt/ equity
American Sterilizer/health care equip	16¼	$1.66	9.8	2.7%	$2.20	25.0%	18%	23%	1.19	14%
Ampad/paper products	21¾	1.63	13.3	2.4	2.30	46.5	NA	NA	2.29	25
Argosystems/electronics	17	0.81	21.0	—	1.08	41.6	39	43	4.06	0
Bellwether Explor/oil and gas expl & dev	3¼	0.21	15.5	—	0.25	25.0	65	–13	1.73	43
Big Bear/grocery stores, retail	9½	1.58	6.0	—	2.00	25.8	14	38	1.44	113
Burndy/electronics	15⅝	1.09	14.1	5.5	1.98	95.9	–2	–10	1.41	13
Dreyer's Grand Ice Cream/ice cream	18¼	0.74	24.7	—	1.26	80.2	69	100	4.93	6
AG Edwards/securities brokerage	22¼	2.16	10.3	3.6	2.70	25.0	NA	NA	1.75	0
Forest Labs/drugs	15	0.54	27.8	—	1.95	261.1	22	NA	6.05	12
Home Centers of Am/home products	9¼	–1.16	NM	—	0.55	NA	NA	NA	6.17	270
Infodata Systems/computer software	7½	–0.64	NM	—	0.80	247.8	39	250	4.10	17
Intl Banknote/printing	4⅜	–1.26	NM	1.8	0.79	NA	3	–74	4.92	174
Iomega/computer equipment	5⅛	–0.67	NM	—	0.63	NA	NA	NA	NM	NM
Penn Central/multicompany	46	–0.15	NM	—	4.34	NA	33	–32	1.27	17
Rainier Bancorp/bank holding	36⅝	5.15	7.1	4.8	6.28	28.1	9	5	0.90	18
Richardson-Vicks/cosmetics	26⅛	2.05	12.9	5.6	3.06	45.5	9	0	2.37	36
Sandwich Chef/fast food	7½	0.58	12.9	—	0.83	19.1	36	18	1.40	1
SIS Corp/fast food	6⅛	0.14	45.5	—	NA	NA	NA	NA	2.41	36
Steiger Tractor/agricultural equipment	8	0.49	16.3	—	1.46	NA	–1	–36	0.80	25
Texas Am Bancshares/bank holding	37½	3.61	10.4	4.1	4.82	31.6	23	6	1.26	32
Time/publishing	40½	2.86	14.2	2.0	4.10	96.3	22	1	3.73	42
Toro/appliances	11¼	1.36	8.3	—	1.42	999.0	–8	–27	1.40	61
Ultrasystems/engineering, construction	18½	0.72	25.7	0.3	1.58	118.8	62	NA	4.03	0
Victoria Bankshares/bank holding	21	2.32	9.1	4.8	2.64	8.3	26	6	0.98	16
Winnebago/recreational vehicles	10¼	0.84	12.2	1.0	1.87	196.3	3	NA	2.69	4

NA: Not applicable, not available. NM: Not meaningful.

Sources: Disclosure II & Lynch, Jones, & Ryan's Institutional Brokers Estimate System (IBES) Data on diskette via MicroScan from ISYS Corp. FORBES Statisticians: Leslie Pittel, Barbara Kallen.

years. In its new acquisitions, the company is amortizing the goodwill over a full 40 years to reduce current charges. Legal? Yes, but full of risky assumptions about how long Crime Control can retain the customer base it purchased. "If I were the auditor I would be much more comfortable with a 10-to-15-year period," says Julian Jacoby, a partner at Laventhol & Horwath.

It's no petty point. The longer amortization schedule greatly increases reported profits. This year, using the 40-year schedule, Crime Control will write off $393,000 in goodwill. Had it used a more conservative 13-year schedule, the writeoff would rise to $1.2 million and pretax profits would fall by 20 cents a share.

This question of goodwill amortization is important because the acquisitions didn't come cheap. For example, Clark paid $16 million, or 27 times earnings, to buy McCane-Sondock Protection Systems, Inc., a Houston-based alarm company.

No matter how many rules the accountants write, a smart fellow can find ways to bend them to his advantage. Clark is wise in the ways of accounting; he is a former tax accountant with Ernst & Whinney. But investors are becoming skeptical of fancy bookkeeping. After the Radio Shack decision, the price on Crime Control stock fell from 22¾ to 12 in a 2½-month period. It recently traded at around 10. That leaves Clark well under water with his stock and leaves his friendly bank with shrinking collateral. What next? ■

What common thread distinguishes a great company from an ordinary one?

A search for excellence

By Ben Weberman

THE FEDERAL RESERVE BANK of Atlanta last year asked Wall Street analysts for their choices of the top companies in the Southeast. Delores Steinhauser of the Fed's research staff and her colleagues also asked the 40 or so branch directors for nominations—"companies that are well respected, will last for a long time, have some kind of enlightened management style and have good growth of sales and earnings."

This quest produced a list of about 100 companies. The Fed researchers winnowed out all but those that were in the top two in their industries in five-year compound growth in net sales, return on assets and return on equity. The residue was a list of 22 premier Dixie companies.

Dixie dandies

Good management leads to good numbers. The 12 financial concerns on a list of high performers companies listed below are the only public non- selected by the Federal Reserve Bank of Atlanta.

Company	Sales 1983 (millions)	Sales 5-year growth rate	Pretax income 1983 (millions)	Pretax income 5-year growth rate	Latest 12-month EPS	Indicated dividend	Quarterly net income per share most recent	Quarterly net income per share 1 year ago	Stock price recent	Stock price 52-week range
Charter Medical	$ 358.7	31.0%	$ 48.0	49.8%	$1.54	$.80	$0.49	$0.37	25	29⅞–17½
Coca-Cola	6,828.9	10.6	1,000.0	8.0	4.21	2.76	1.02	0.90	57⅛	59⅞–45⅝
Federal Express	1,008.1	44.8	150.2	52.5	2.53	1.36	0.60	0.46	34⅜	48½–27¾
Flowers Inds	522.3	16.1	35.2	14.0	1.36	0.50	0.25	0.21	20⅜	21¼–16⅛
Home Depot*	256.2	488.6	19.0	197.8	0.41	NM	0.13	0.06	23⅛	31⅛–14
Intelligent Systems*	90.1	49.7	15.4	75.2	0.84	NM	0.30	0.12	12¾	26½–12¾
Key Pharmaceuticals	127.4	80.3	34.1	93.3	0.51	0.16	0.13	0.09	12¾	25¾–10⅝
Management Sci Am	139.1	39.5	19.1	48.5	0.76	NM	0.03	–0.17	19¼	33 –14½
Nucor	542.5	10.0	47.6	–7.3	2.11	0.36	0.38	0.25	29⅜	44¼–26
Oxford Inds	516.7	18.1	42.6	28.4	2.14	0.40	0.42	0.38	13½	25¼–12⅛
Russell	318.7	12.7	47.1	11.5	1.37	0.30	0.26	0.24	12¼	18⅜–12⅛
Sonoco Products	686.6	13.0	63.1	6.2	3.72	1.18	0.95	0.65	41	46½–39

*Sales and income figures as of end of fiscal year 1984.
NM: Not meaningful.

The Fed's finest

As the 22 premier companies listed below demonstrate, corporate excellence comes in all sizes and all ages.

Company	Age in years	Employees (12/31/83)
Bank Earnings Intl	8	122
Hayes Micro	6	350
Intelligent Sys	11	420
Key Pharm	37	1,150
Nissan	4	1,800
Management Sci Am	21	1,857
Home Depot	6	2,400
Nucor	18	3,700
Trust Co of Ga	93	4,671
Wachovia	105	6,544
Charter Medical	15	8,500
Russell Corp	82	8,800
Flowers Industries	65	9,065
Sun Banks	50	9,200
Sonoco Products	85	10,008
Barnett Banks	107	10,669
Oxford Industries	42	12,884
Days Inns*	14	13,500*
Federal Express	11	17,059
Publix Super Mkts	54	33,985
Delta Air Lines	55	37,239
Coca-Cola	98	39,792

*Includes approximately 6,000 employees at franchises.

Source: Federal Reserve Bank of Atlanta.

It's a varied list, ranging from $6.8 billion (sales) Coca-Cola to $90.1 million Intelligent Systems, and from 4-year-old Nissan Motor Manufacturing, USA, to 107-year-old Barnett Banks of Florida *(see list above)*.

What do they have in common? Most important is a commitment to technology, says Donald L. Koch, former head of economic research at the Atlanta Fed (and now at Robinson Humphrey, a regional brokerage firm owned by American Express). It's no secret that Nucor, the steel minimill (FORBES, *Apr. 30*), has advanced technology. But state of the art is also the key at Russell Corp., an 82-year-old, Alabama-based producer of athletic apparel that has grown 12% compounded in both sales and earnings over the past five years, mainly because it has one of the most automated production lines in the industry.

But not all are technology-directed companies. Take $2.8 billion (sales) Publix Super Markets of Florida, whose 2% net margins exceed the 1.7% national average for food stores. Publix' stock is not publicly traded, but most employees are stockholders directly or through ESOP. And Publix has no organizational chart or policy manual. What does it have that is different? Highly motivated workers, workers who really care.

Any other common threads? Most of the 22 companies have decentralized decision making and generally informal management, says the Fed's Steinhauser. Most talk about a sense of "mission." Most encourage employee stock ownership. In short, all of them are people-oriented rather than product-oriented.

There is $256 million (sales) Home Depot. Its corporate policies often originate in meetings between small groups of employees and Chairman Bernard Marcus, who visits each of the company's 21 stores at least every three months. "The idea is for me to listen," says Marcus. "I cannot tell you how much money this company has saved by listening."

At Nissan and Nucor there are no reserved parking spaces for officers. At Hayes Microcomputer Products there are no executive offices; everyone, including founder Dennis Hayes, works in a cubicle with no door.

Some of the 22 are thriving even in tough areas like the baking industry, where Flowers Industries has had compound sales growth increases of 16% over the past five years and has averaged 19% return on equity. Flowers takes over ailing local bakeries and revives them with modern equipment and specialized product lines.

A single common thread? Only this: Each of the elite companies has found a way to motivate rank and file workers as well as top management. Is American business listening? ■

TV station prices are climbing in anticipation of FCC changes in the old antimonopoly rules that will allow companies to own more than seven stations.

Decontrolling television

By Jeffrey A. Trachtenberg

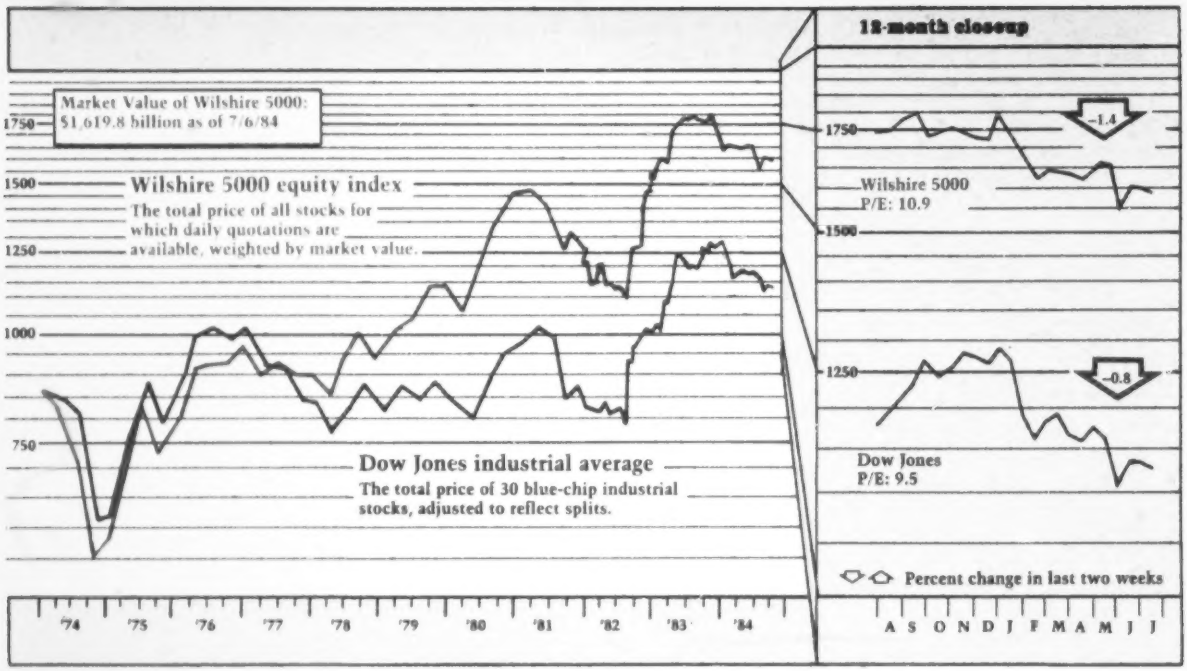
PRICES FOR TELEVISION stations are climbing and will likely climb higher because of the expected changes in the Federal Communications Commission's ownership rules. Today the limit per company is seven TV stations, a maximum of five VHF (channels 2 to 13) and up to seven UHF (channels 14 to 83), plus up to 14 radio stations.

"If the cap is lifted, you could see some big acquisitions," says Jim Sefert, president of the Cosmos Broadcasting Corp., a wholly owned subsidiary of the Liberty Corp., which runs six TV stations now. So sure are broadcasters that the rules will be rewritten—perhaps before the FCC breaks for its August recess—that they have already begun spending.

SFN Cos. of Glenview, Ill. (it used to be part of Scott, Foresman, the book publishers), for example, just completed the acquisition of Western Broadcasting for $116 million. Included in the deal were television stations in San Juan, Puerto Rico, and Columbus and Augusta, Ga., plus three radio stations.

SFN, traded on the New York Stock Exchange, has also announced its intention to buy WFTV in Orlando, Fla. for $125 million. Although the rule-of-thumb multiple is 10 times cash flow, SFN is paying about 13. "We moved quickly on both our deals because we felt it would be more difficult for a company like ours to acquire desirable Sunbelt properties if the seven rule is changed," says Jack Purcell, SFN chairman and president. "Big companies now at their limit

The Forbes/Wilshire 5000 Review



The rally that hasn't come. The market's strength in late May and early June gave investors cause for hope. But the first few weeks of the summer have been marked by lackluster volume and generally small day-to-day swings in the major indexes. The Dow industrials lost 0.8% during the last two weeks, while the NYSE fell 1.3%. Secondary issues slipped a bit more: The Amex declined 2.4% and the NASDAQ was off 1.8% during the period. The Wilshire index shows that the overall market declined some 1.4%.

Investors continue to flock to defensive groups such as foods, drugs and cosmetics. The yardsticks below, for example, illustrate how much conservative issues have outpaced their more speculative counterparts. High volatility shares are off some 26.5% during the last 52 weeks, while low volatility shares are up a modest 0.2%.

The August 1982 rally, of course, surprised most investors. So the fact that there is probably more bullish sentiment now than there was two years ago isn't necessarily a positive sign. Could the market break beyond 1140 on the Dow in the next few weeks? Sure. But so far the economic issues that are keeping the big money in cash and government securities have made this a hot, sweaty summer on Wall Street.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-1.6	-1.4	-0.8	-1.6	-3.2	-1.5
in last 52 weeks	-12.6	-8.7	-7.0	-9.3	-19.7	-25.9

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	-2.1	-2.4	-4.0	-0.4	-2.5	-1.1	-1.0	-2.6	-3.8	0.0	0.0	-3.8
in last 52 weeks	-11.6	-19.1	-26.5	0.2	-28.5	-12.5	-0.4	-18.3	-22.8	0.9	-7.4	-23.5

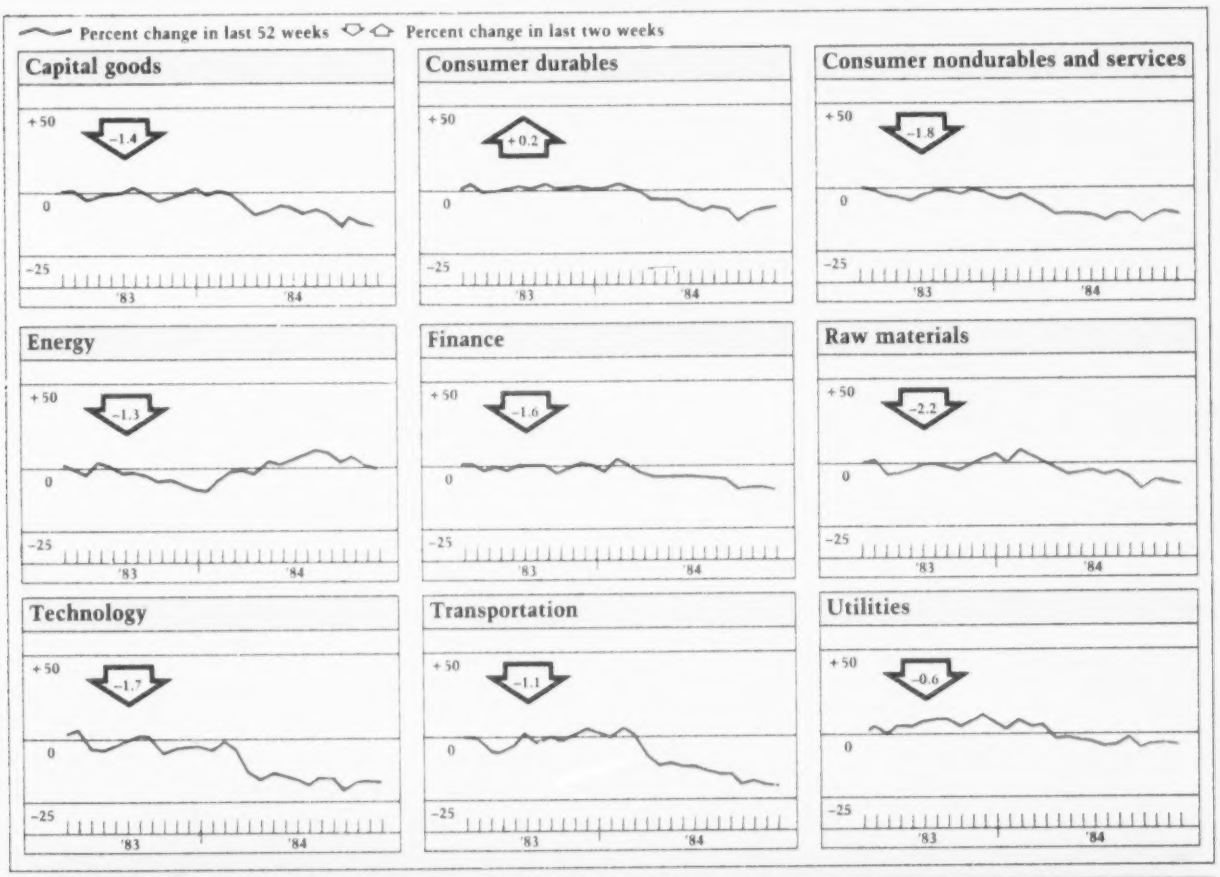
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 7/6/84. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Good times, bad times. As Wall Street's recent winning streak fell apart in a series of losing sessions, investors could do little but count their losses and hope for better days. Indeed, it has been a discouraging year for all nine Wilshire sectors. Over the last 52 weeks technology stocks fell by 21.4%; and transportation issues, 21.2%. In fact, while all sectors are down for the 12-month period, only energy and utility issues avoided double-digit losses.

During the latest two weeks the raw materials sector suffered the largest setback, a 2.2% decline. Consumer nondurables and technology shares followed with respective losses of 1.8% and 1.7%. The only sector to stay in positive territory for the period was consumer durables, which registered a 0.2% gain.



What The Analysts Think

More fine-tuning. During the last two weeks security analysts reduced their earnings estimates on six of the Wilshire sectors. The largest downward revision came in capital goods. On a more positive note, however, the experts raised their earnings forecasts for transportation, utilities and consumer durables.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.88	11.0
1984 estimates	4.00	8.0
1985 estimates	4.81	6.5

Rank based on change in estimate	Sector	Estimated 1984 EPS	% change in 1984 estimate in 2 weeks	in 4 weeks
1	Transportation	$2.69	1.34%	-0.74
2	Utilities	3.51	0.39	0.26
3	Consumer durables	3.24	0.05	-1.73
4	Energy	2.74	-0.37	-3.21
5	Technology	1.92	-0.59	-7.02
6	Raw materials	3.26	-0.69	-3.85
7	Finance	3.65	-0.98	-8.39
8	Consumer nondurables	2.57	-1.01	-2.25
9	Capital goods	2.36	-1.62	-2.09

Earnings projections are equal-weighted consensus estimates from over 1,800 security analysts. Forecasts for the 9 Wilshire sectors are limited to firms with 3 or more estimates, with a mean estimate greater than $0.50. Data are compiled and updated weekly by Zacks Investment Research, a Chicago-based quantitative consulting firm.

Note: All data for periods ending 7/6/84. Prepared by Wilshire Associates, Santa Monica, Calif.; Zacks Investment Research, Inc., Chicago, Ill.

The Korea Stock Exchange
Primitive, but potentially profitable.

(Korea Herald)

The Funds

inflation, it seems to have stabilized for the moment. There was an estimated real growth of about 9.3% in GNP last year, while the wholesale price index rose only 0.2%. Much of that growth was export-driven (steel, color televisions, container ships), and for a while there was a celebration on the floor of the Korean Stock Exchange. The gala, though, was choked off by the collapse of a speculative bubble in real estate and by the kind of recurring political collisions that investors in the Korea Fund will have to learn to live with—notably the Soviet attack on the Korean Air Lines plane last September and the assassination of a number of high-level government officials by North Koreans in Burma about a month later.

The Korean stock market is so small and thin (the average daily trading volume last year ran around $7.5 million) that Scudder will have to move carefully to avoid giving locals a free ride in the comparatively short list of stocks that qualify as investment grade. With the issue still in registration, Scudder is not talking to reporters.

It's a good bet, though, that it might take the fund as much as six months to a year to get fully invested.

Last year the 25 most actively traded stocks generated about half of the market's turnover. That is thin stuff, indeed. Symbolic of the early evolutionary stage of the economy, the most active list was weighted with basic industry: construction companies like Chinheung International and Sam Ho International, cement producers like Ssangyong, and also Korea Ship Building Engineering Corp.

Like the Japan Fund, the Korea Fund will draw on the resources of a local subadviser, in this case, the Daewoo Research Institute. The institute is a subsidiary of Daewoo Securities Co., Ltd., the republic's biggest brokerage firm and itself the subsidiary of one of the nation's biggest conglomerates. Scudder is charging stockholders a fairly hefty annual fee of 1.1% of assets; about a fourth of this goes to Daewoo. The hope is that the local input, coupled with Scudder's own legwork, will help the fund get in on the ground floor of a still basic, erratic but fast-growing economy. The risks are obvious. So, also, are the opportunities. ■

Statistical Spotlight

When it comes to the banks, the stock market seems to be doing its homework, rewarding quality rather than quantity.

Different kinds of big

By Ben Weberman

J.P. MORGAN & CO. RANKED ahead of BankAmerica, which is more than twice as big; Texas Commerce Bancshares came out ahead of Manufacturers Hanover, more than three times as big. That is what happens if you rank banks by market value, as we do in the table opposite, rather than by assets or deposits.

When it comes to stock market valuation, regional banks show up prominently, while big money center banks are out of favor. The regionals, of course, are considered less likely to have large international loan losses, and to be handy merger candidates.

Charles Zwick, CEO of Florida's Southeast Banking Corp., paints a glowing picture of the prospects of regional superbanks if the deregulation process allows regional interstate banking before full national interstate banking. "Southeast already has an arrangement with the $5.8 billion (assets) First Atlanta Corp.," he says, "and with the addition of one of the three largest North Carolina banks, say Wachovia, we'd be bigger than any but one of the top seven on your table. We could compete on any level in any field." The market seems to buy his argument: Recently Southeast stock sold at 8 times earnings, compared with 5 for New York City banks.

So why is J.P. Morgan doing so well in a market that shuns big-city banks with big international loan exposure? Because Morgan has been forthright about potential losses, increasing its credit-loss reserves by $131 million, from $346 million to $477 million, or 1.4% of total loans outstanding.

Compare that with another big bank, Manufacturers Hanover. It's tenth in market value even though it is fourth in assets, and at the end of this year's first quarter reported a low 1.7% level of total nonperforming

loans. But the market is skeptical. In contrast to Morgan's steadily increasing loan-loss reserve, Manny Hanny's $432.8 million reserve was a modest 0.9% of loans outstanding at the end of last year. At the end of the first quarter, according to Mark Alpert, bank stock analyst at Bear, Stearns & Co., MHT was still classifying only $95 million of its $7.1 billion in Latin American exposure as nonperforming. That's 1.3%, compared with the peer average of 9.5%. But in mid-June, in connection with an SEC filing, the bank revealed that about $735 million of Argentinean loans were in renegotiation. True, even if that amount were classed as nonperforming, as the bank said, its total would still be only about 3%, "which compares favorably with the first-quarter average for its peer group." But how many other loans, not in the public eye like Argentina's, is Manny Hanny not talking about?

Wholesale banks such as Bankers Trust, which do little business with the public, also come out looking good on the market value list.

But the real stars remain the regionals. Take $19.5 billion (assets) Texas Commerce Bancshares, which ranks 20th among U.S. banks in assets and 21st in deposits but 6th in market value. It's no mystery, says Texas Commerce Vice Chairman Marc Shapiro, "we emphasize lending systems that have protected our credit quality." Every loan over $100,000 must be approved unanimously by a management credit committee. Every one over $4 million goes before a senior loan committee. Says Shapiro: "We are not really very diversified. We make money from taking deposits and making good loans."

Texas Commerce is among 7 companies (of the 1,550 listed on the New York Stock Exchange) that showed increased quarterly profits year to year for 15 years. Among the 25 largest banks, it ranks first in both assets and earnings growth over the past decade (21% and 17%, respectively) and in return on assets (1%) and return on equity (18%).

This is the kind of quality the stock market is rewarding these days. What counts is not how big a bank is, but how good it is. ■

How the market ranks the banks

These days investors are looking at more than the traditional measures of a bank's size and strength. Merger potential, credibility of reported earnings, and loan exposure all help produce the rankings below.

Bank	Market value* (million)	Shares out (million)	Recent price	Assets total (billion)	Assets rank†	Deposits total (billion)	Deposits rank†	Net income (million)	Net income rank†
1 Citicorp	$3,828.1	125	30⅝	$134.7	1	$79.8	2	$860.0	1
2 JP Morgan	2,547.1	41	62⅛	58.0	5	38.1	5	460.0	2
3 BankAmerica	2,381.3	150	15⅞	121.2	2	95.8	1	390.5	4
4 Security Pacific	1,563.3	37	42¼	40.4	9	27.8	9	264.3	7
5 Chase Manhattan	1,378.1	35	39⅜	81.9	3	56.3	3	429.6	3
6 Texas Commerce	1,308.0	32	40⅞	19.5	20	13.1	21	177.0	12
7 First Interstate	1,286.4	41	31⅜	44.4	7	32.0	7	247.4	9
8 Bankers Trust	1,155.0	30	38½	40.0	10	22.8	11	256.9	8
9 Chemical NY	1,104.0	46	24	51.2	6	32.5	6	305.6	6
10 Mfrs Hanover	990.0	40	24¾	64.3	4	42.3	4	337.0	5
11 Mellon National	975.0	26	37½	26.4	13	15.7	16	183.8	10
12 First Chicago	933.8	45	20¼	36.3	11	27.7	10	183.5	11
13 Allied Bancshares	931.1	39	23⅞	7.9	39	6.5	36	98.8	22
14 PNC Financial	825.0	22	37½	12.2	27	7.4	29	117.0	18
15 Wells Fargo	771.0	24	32⅛	27.0	12	20.4	12	154.9	13
16 Banc One	743.8	34	21⅞	7.3	43	5.9	41	83.3	29
17 Wachovia	734.0	16	45⅞	7.9	40	5.8	42	84.6	28
18 RepublicBank	715.5	27	26½	19.1	21	13.9	17	130.2	15
19 Norwest	703.5	28	25⅛	19.9	18	13.6	19	125.2	17
20 First Bank Sys	693.8	30	23⅛	20.9	17	13.4	20	129.7	16
21 Trust Co of Ga‡	666.0	24	27¾	4.9	73	3.5	77	73.0	32
22 Bank of Boston	584.3	19	30¼	19.5	19	12.4	23	135.7	14
23 Barnett Banks	558.0	16	34⅞	9.4	30	8.1	28	81.9	30
24 Harris Bankcorp**	545.1	7	77⅞	7.4	42	5.1	46	31.3	72
25 Sun Banks‡	528.0	22	24	8.9	31	7.3	30	46.3	49
26 First City Bancorp	512.0	32	16	17.3	23	13.7	18	49.8	43
27 Corestates Finl	506.3	15	33⅜	8.6	34	6.1	37	85.4	26
28 Mercantile Texas	506.3	25	20¼	11.9	28	9.0	25	100.4	21
29 Norstar Bancorp	457.5	15	30½	5.4	69	4.5	58	58.3	35
30 Irving Bank	450.0	9	50	18.6	22	12.6	22	92.5	23

*As of June 29, 1984. †Among the 100 largest. ‡Trust and Sun have reached a merger agreement expected to be effective 7/1/85. **The proposed purchase of Harris by the Bank of Montreal is pending regulatory approval.

Sources: MicroScan, Forbes